

CITY OF BERKELEY, CALIFORNIA

SINGLE AUDIT ACT

JUNE 30, 2007

CITY OF BERKELEY, CALIFORNIA

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the City Council
City of Berkeley, California

We have audited the financial statements of the business-type activities of the City of Berkeley (the "City"), California, as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion of the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Deficiency 07-01 and 07-02 to be significant deficiencies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City's audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. M. Shenberg UP

March 10, 2008
Redwood City, California



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council
City of Berkeley, California

Compliance

We have audited the compliance of the City of Berkeley, California (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The City's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133*, and are described in the accompanying schedule of findings and questioned costs as Deficiency 07-01 and 07-02.



Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Deficiency 07-01 and 07-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Berkeley taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Supplemental Statements are presented for purposes of additional analysis as required by the OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information of the City's audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Shenberg LLP

March 10, 2008
Redwood City, California

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal Catalog Number (CFDA)	Contract Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through State Department of Health Services:			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	99-14566/99-85699	\$ 497,654
Pass-Through State Department of Education:			
Summer Food Service Program for Children	10.559	1-80100V	124,120
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>621,774</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grant/Entitlement Grants ⁽¹⁾	14.218	B-06-MC-06-0008	3,160,335
Emergency Shelter Grants Program	14.231	S-06-MC-06-0008	134,892
Shelter Plus Care Program ⁽¹⁾	14.238	MISC	2,251,911
Home Investment in Affordable Housing ⁽¹⁾	14.239	M-06-MC-06-0202	2,210,909
Section 8 - Moderate Rehabilitation Program	14.249	SF-464	504,318
Low-Income Public Housing - Operating Subsidy	14.850	SF-428	125,090
Section 8 - Rental Voucher Program ⁽¹⁾	14.871	SF-464	22,650,275
Public Housing Capital Fund	14.872		33,392
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>31,071,122</u>
U.S. DEPARTMENT OF JUSTICE			
Pass-Through County of Alameda			
Local Law Enforcement Block Grant	16.592	2005DJBX1321/2006DJBX0716	113,289
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>113,289</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-Through State Department of Transportation:			
Highway Planning and Construction	20.205	MISC	953,217
State and Community Highway Safety	20.600	MISC	423,617
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>1,376,834</u>
U.S. DEPARTMENT OF ENERGY			
Pass-Through State Department of Community Services and Development:			
DOE Low Income Weatherization Assistance Program	81.042	06C-1601	28,427
TOTAL U.S. DEPARTMENT OF ENERGY			<u>28,427</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through County of Alameda Area Agency on Aging:			
Special Programs for the Aging - Title III, Part B - Grants for Supporting Serv Ctrs	93.044	C-93-1004	41,048
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	C-93-1004	18,865
Special Programs for the Aging - Title III, Part E - Family Caregiver	93.052	C-93-1004	28,046
Nutrition Services Incentive Program	93.053	C-94-0162	5,755
Pass-Through State Department of Health Services:			
Tuberculosis - CDCP local Assistance	93.116		41,950
Childhood Immunization Grants	93.268	06-55169/06-55230	64,305
Head Start - YMCA Early Childhood Services	93.600		26,200
Medical Assistance Program - Targeted Case Management	93.778	60-0407	1,119,635
Maternal and Child Health Services Block Grant	93.994	200659	354,637
Child Health Disability Prevention	93.994		450,860
Pass-Through California Family Planning Council:			
Family Planning-Services	93.217	06PH57	107,099
Pass-Through State Department of Community Services and Development:			
Low-Income Home Energy Assistance	93.568	06B-5351 LIHEAP	60,048
Low-Income Home Energy Assistance	93.568	07B-5401 LIHEAP	5,364
Low-Income Home Energy Assistance	93.568	07B-5401 WEAT	40,448
Low-Income Home Energy Assistance	93.568	06B-5351 WEAT	131,229
Community Services Block Grant	93.569	06F-4701	173,556
Pass-Through County of Alameda Health Care Services Agency:			
Emergency Community Services for the Homeless	93.151	C-94-0162	25,951
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,694,996</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-Through State Office of Emergency Services			
Disaster Grant - 2005-2006 Winter Storm, Hurricane Katrina & Rita	97.036	MISC	275,005
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>275,005</u>
TOTAL CITY OF BERKELEY EXPENDITURES OF FEDERAL AWARDS			<u>\$ 36,181,447</u>

⁽¹⁾ Major Program - Type A (all remaining programs are non-major programs)

CITY OF BERKELEY, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. General

The accompanying Schedule of Expenditures of Federal Awards presents activity of the federal financial assistance programs of the City of Berkeley, California (the "City"). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies, is included in this schedule.

2. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the City's Comprehensive Annual Financial Report.

Federal programs are labeled either as Type A or Type B. Type A programs are defined as based on the following criteria:

When total cash and noncash expenditures of federal awards for programs are:		Type A program means any program with all federal expenditures that exceed:
<u>More than</u>	<u>Equal to or less than</u>	<u></u>
\$300,000	\$10 Million	\$300,000
\$10 Million	\$100 Million	3% of federal awards
\$100 Million	\$1 billion	\$3 million
\$1 billion	\$10 billion	0.3% of federal awards
\$10 billion	\$20 billion	\$30 million
\$20 billion		0.15% of federal awards

Federal programs not labeled Type A as described above are labeled Type B programs.

3. Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to material weaknesses? X yes _____ none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes _____ none reported

Type of auditor's report issued
on compliance for major programs:

Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of *OMB Circular A-133*?

 X yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.238	Shelter Plus Care
14.239	Home Investment in Affordable Housing
14.871	Section 8 - Rental Voucher Program

Dollar threshold used to distinguish
between type A and type B programs:

\$1,085,443

Auditee qualified as low-risk auditee?

_____ yes X no

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section II - Financial Statement Findings

During our audit of the City's Housing Authority ("Berkeley Housing Authority") for the fiscal year ended June 30, 2007, we noted significant deficiencies in internal control design and operation as described in section III of this schedule as Deficiency 07-01 and 07-02

Section III - Federal Award Findings and Questioned Costs

Deficiency 07-01 - During our testing of the Security Deposit Loan Program we noted eleven samples with incomplete information, such as missing copies of applications, contracts, loan checks, and evidence of payment. The Berkeley Housing Authority ("BHA") staff explained that copies of payment checks are organized by student volunteers because of short staffing and since there are multiple files for different programs for these applicants, workers sometimes misplace items from one folder into another folder.

We also noted multiple missing entries on the Security Deposit Loan Program payment ledger itself, such as check date, loan term, and agreed monthly payment amount. BHA staff commented that they are using an updated version of accounting software called Emphasys to document and print loan checks. However, the new version of the program is used to print Wells Fargo checks (section 8), but does not print Union bank checks, therefore BHA relies on the old version of the software to print the security deposit checks (Union Bank). Also, there are software problems with the old version that only allows the program to function periodically. Since the older version of Emphasys is the only tool BHA staff uses to print security deposit checks, they sometimes could not print these checks because of software malfunctions. In addition, BHA staff was unable to print a listing of checks from the older version of Emphasys because of the software problems. In conclusion, the data in the payment ledger is incomplete and unreliable because BHA staff must manually update information on the payment ledger from Emphasys, and because of the missing loan agreements from applicants.

Recommendation - We have noted similar deficiencies related to BHA's financial software in prior management letters dating back to June 30, 2003. With regards to the collection of loan repayments, BHA sent confirmation letters to loan recipients expecting response by January of 2007. However, that effort did not increase the accuracy of the ledger used to track the loan balances and payments applied. Nor did it improve the record keeping in relation to payments made by loan recipients. We recommend that management perform a reconciliation of the ledger using bank statements to verify the loans and payments. This reconciliation should stretch back as far as deemed necessary by management using a cost benefit analysis of the resources available versus quality of the information both to the financial statements and to the recipients.

Status - This is a repeat recommendation from the June 30, 2006 audit.

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Deficiency 07-02 - During our audit of BHA for the fiscal year ended June 30, 2007 we noted significant deficiencies in internal control design and operation for the Section 8 Voucher program.

The following summarizes the results of internal control and compliance tests we performed for thirty tenant files sampled from the Section 8 program.

1. Four samples were missing the Housing Assistant Payment (the "HAP") contract.
2. In one sample a copy of the birth certificate was not on file which was required to verify citizenship.
3. One sample was missing the family report.
4. Two samples had family reports that were completed more than 90 days after the anniversary date.
5. Ten samples were missing waiting list information.
6. In one sample, the utility calculation was not done correctly.
7. One sample was missing the housing quality standard (the "HQS") inspection report.
8. In one sample, the income re-examination information was the same as last year.

The following summarizes similar findings we had in the 2006 audit and is presented here for comparison purposes.

1. Five samples were missing the Housing Assistant Payment (the "HAP") contract.
2. In one sample the actual HAP amount did not match with the amount on the HAP contract.
3. Four samples were missing the family report.
4. Two samples were missing supporting documentation verifying bedroom size.
5. One sample was missing supporting documentation verifying the social security number.
6. Thirteen samples were missing waiting list information.
7. In three samples, the income calculations were done incorrectly.
8. Eleven samples were missing the housing quality standard inspection report.
9. The annual re-certification process was not done in eight samples.
10. One tenant file could not be located by BHA.

The primary cause of the conditions noted is a lack of monitoring over programs at the Berkeley Housing Authority (the "Authority"). The monitoring is insufficient mostly because the City's housing authority does not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - Based on our procedures performed during the audit of the BHA, we recommend that the BHA create and implement procedures that will achieve the following:

1. Eligibility Process - BHA should collect application data, verify income eligibility (including third party verifications), calculate rent, and perform annual re-certifications and inspections.

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

2. Reasonable Rent Determination - BHA should have written procedures as to how they determine rent reasonableness, and should conduct tests on properties to be assisted, including checking for comparability as required by the Department of Housing and Urban Development.
3. Utility Allowance Schedule - BHA should conduct utility allowance surveys on an annual basis and the surveys should be used in the determination of total tenant payments, which in part determines the Housing Assistance Payment.
4. HQS Inspections and Enforcement - Under the Section 8 Programs administered by BHA, they should inspect each and every unit prior to initial occupancy and annually, thereafter; and enforce decent, safe, and sanitary standards as a condition of providing federal rent assistance payments.

All aspects of the housing assistance process should revolve around the findings of the Housing Inspectors. No recertification or initial move-in should be approved until inspections are conducted. A utility allowance survey should be conducted immediately and rent adjustments made accordingly.

Status - Repeat recommendation. While the findings did decrease from prior year, a documentation issue still exists as evidenced by the amount of missing items noted during the current audit. Although BHA has taken steps to improve their filing systems and maintenance, they still have a high rate of missing documentation as noted above.

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Finding 06-01 - During our audit of the Berkeley Housing Authority (the "Authority") for the fiscal year ended June 30, 2006, we noted significant deficiencies in internal control design and operation for the Section 8 Voucher program.

The following summarizes the results of internal control and compliance tests we performed for 30 tenant files sampled from the Section 8 program.

1. 5 sampled tenant files were missing the Housing Assistant Payment ("HAP") contract.
2. The actual HAP amount did not match with the amount on the HAP contract in 1 sampled file.
3. 4 sampled tenant files were missing the family report.
4. Missing supporting documentations to verify bedroom size in 2 sampled tenant files.
5. Missing supporting documentations to verify the social security number in 1 sampled tenant file.
6. 13 sampled tenant files were missing waiting list information.
7. The income calculations were done incorrectly in 3 sampled tenant files.
8. The housing quality standard inspection report was missing in 11 sampled tenant files.
9. The annual re-certification process was not done in 8 sampled tenant files.
10. The Authority cannot locate 1 sampled tenant file.

Questioned Costs - None noted.

Cause - The primary cause of the conditions noted is a lack of monitoring over programs at the Authority. The monitoring is insufficient mostly because the Authority does not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - Since the findings noted are similar to prior year, we repeat our recommendations as follows:

1. Eligibility and Re-certification Process - The Authority should collect application data, verify income eligibility (including third party verifications), calculate rent, and perform annual re-certifications and inspections in a timely manner.
2. HQS Inspections and Enforcement - Under the Section 8 voucher program administered by the Authority, they should inspect each and every unit prior to initial occupancy and annually, thereafter, and enforce decent, safe and sanitary standards as a condition of providing federal rent assistance payments.

Progress and Status - Management concurs with the recommendations and has implemented a corrective plan to eliminate the findings identified in this audit.

The management issues identified in this audit report are consistent from year to year. With constant changes in management (almost annually the past 5 years), it has been difficult to

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

fully implement any corrective action plan and see the benefits carry from one year to the next. We have again embarked upon a period of improvement including:

1. A comprehensive revision of the Administrative Plan building upon policies and practices adopted by the Alameda County Housing Authority, and the Oakland Housing (two high performing agencies).
2. We have identified major discrepancies with data in the (Elite) computer system. Efforts are underway to clean up the data; grant staff appropriate access to perform required functions. We are gleaning *best practices* information from other agencies utilizing the Elite system, and increasing our active participation in the Elite users group.
3. Currently the annual two-phase recertification process (inspection and income eligibility) are decoupled, making tracking difficult. The BHA Manager is working with Information Technology to compare the "inspection" and "income recertification" databases so the two functions can be synced, with a single caseworker held accountable.
4. A system for performing periodic SEMAP reviews in an effort to anticipate the year-end certification. A form has been developed (SEMAP Indicator 1) to access the components; line staff was instructed (via a hands on exercise) on the impact of each error has on the SEMAP certification.
5. Purchasing "GoS8", an interactive Rent Reasonableness database service offered by NanMcKay and Associates, a recognized leader in the assisted housing industry.

Finding 05-01 - During our audit of the Authority for the fiscal year ended June 30, 2005, we noted significant deficiencies in internal control design and operation with respect to inspections, re-certifications, eligibility, waiting lists, record retention, records maintenance, and access to records for the Low-Income Public Housing ("LIPH") and Section 8 Voucher programs.

The following summarizes the results of internal control and compliance tests we performed for tenant files sampled, by program.

1. LIPH Program - From 57 tenant files, we selected 10 files for testing and noted the following:
 - 8 files were missing the annual inspection report.
 - 3 tenants were living in units with the wrong bedroom sizes.
 - 1 tenant did not have their inspection completed before moving in.

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

- 2 tenants did not have their recertification completed, which could lead to incorrect rent payments since there was no information certifying the current income of the tenants.
2. Section 8 Voucher Program - From 1800 tenant files, we selected 30 files for testing and noted the following:
- 8 tenant files did not have current annual Housing Quality Standard (HQS) inspections.
 - 1 tenant file indicated that the rent was over the current fair market rent.
 - 2 tenant files did not have the Family Report; therefore, the number of family members could not be verified.
 - 2 tenant files did not have the current annual income re-examination worksheet; therefore, rent calculations could not be verified.
 - 7 tenant files did not have the original application or any other form of documentation that could be used to verify the tenant was next in line on the waiting list. In many cases, based on Authority employee interviews, the original applications had been purged from the files at the discretion of Authority staff. This creates an opportunity for preferential treatment and violates fair housing practices since not all applicants on the waiting list have the same opportunity to be selected for assistance. See finding 05-03 for additional findings and recommendations related to the waiting lists.

In general, these deficiencies are notable throughout the overall administration of the Authority and are reportable conditions that require immediate correction. In addition to the above detailed findings, through interviews of management and non-management staff, and further review of tenant files, we concluded that: inspections are approximately one month behind schedule and are not completed on many units; tenant data worksheets and re-certifications are not prepared in conjunction with tenant processing; tenant fiscal data sheets are authorized without support and without documentation of approved inspections which are required to ensure compliance with federal guidelines; the Authority allows the issuance of payments for tenants that do not have documentation of re-certifications or inspections in tenant files; fiscal data sheets are filed for failed inspections and holds are subsequently placed on tenant checks after tenants have already moved in which is a timing issue since the results of the inspections should be filed before checks are authorized for payment; rent reasonableness tests are performed at the time of inspections and since the inspections are behind schedule, rent payments are made before reasonableness tests have been performed; and rent payments have been made without current utility allowance information. We also noted that the Authority has not completed a Utility Allowance survey since 2003. The Authority continues to calculate rents and utilities using outdated information.

Questioned Costs - None noted.

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Cause - The primary cause of the conditions noted is a lack of monitoring over programs at the Authority. The monitoring is insufficient mostly because the Authority and the City do not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - Based on our procedures performed during the audit of the Authority, we recommend that the Authority create and implement procedures that will achieve the following:

1. Eligibility Process - The Authority should collect application data, verify income eligibility (including third party verifications), calculate rent, and perform annual re-certifications and inspections.
2. Reasonable Rent Determination - The Authority should have written procedures as to how they determine rent reasonableness and have tests conducted on every property to be assisted, including inspecting for condition and comparability.
3. Utility Allowance Schedule - The Authority should conduct utility allowance surveys on an annual basis and the surveys should be used in the determination of total tenant payments, which in part determines the Housing Assistance Payment.
4. HQS Inspections and Enforcement - Under the Section 8 Programs administered by the Authority, they should inspect each and every unit prior to initial occupancy and annually, thereafter, and enforce decent, safe and sanitary standards as a condition of providing federal rent assistance payments.

In conclusion, the Authority should review staffing patterns and redistribute the workload to efficiently comply with all aspects of the recertification and eligibility process. All aspects of the process should revolve around the findings of the housing Inspectors. No Recertification or initial move-in should be approved until inspections are conducted. A Utility Allowance Survey should be conducted immediately and rent adjustments made accordingly. All staff should be retrained and, as a condition of employment, be required to implement program requirements consistently. All corrective actions should be coordinated with the City, as needed, and subsequently reviewed by the City for adequacy. Future follow-up and City assistance will be required to ensure that control designs are sufficient and in operation.

Progress and Status

1. Eligibility Process - This recommendation was not implemented as of June 30, 2006 and there were recurring findings for the year ended June 30, 2006. As of January 31, 2007, a checklist has been established for all annual and interim re-certifications. The checklist requires staff to verify the presence of documents for the file as well as verification that computer entries have been confirmed. In addition, the administrative plan has been revised to clarify when a 3rd party is required and when exceptions can be made.

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

2. Reasonable Rent Determination - This recommendation was partially implemented and there were recurring findings for the year ended June 30, 2006. As of January 31, 2007, staff has utilized three resources to document rent reasonableness: (1) The Agency has purchased and now relies on "Go Section 8" software developed and managed by Nan McKay and Associates as the primary source for rent reasonableness analysis; (2) as necessary, staff obtains rent comparability data from Craig's List; (3) staff requires the owner to provide rent comparability data for a minimum of 2-3 units for all new contracts.
3. Utility Allowance Schedule - Our recommendation has been implemented as of June 30, 2006. The newly adopted utility allowances have been applied to all new contracts and to existing contracts at the time of annual re-certification.
4. HQS Inspections and Enforcement - This recommendation was not implemented and there were recurring findings for the year ended June 30, 2006. As of January 31, 2007, the following steps had been taken to implement our recommendation.
 - A. New Contracts: Staff has always required a "passed" inspection as a prerequisite to all new contracts; because of the way the work was divided internally, the inspection report was not always placed in the tenant file in a timely manner.
 - B. Annual Recertification: "Sterling Inc", a consultant in the area, was hired to perform the annual unit inspection. The past due inspections have been performed, and are currently being performed 30-60 days prior to the contract anniversary.

Finding 05-02: Recertification Processing - During our testing, we noted that there was a lack of consistency in the methods used by the Authority staff to process re-certifications, and it is not clear if staff know the sequential process over the administration of the Authority programs. For example, inspectors send out their own letters of re-certification, one staff member generates inspection letters for their case load while another does not, housing inspectors schedule their own inspections and re-certifications, one staff requires re-certification one on one while another sends letters to schedule an appointment. Basically, there is a conflict between administrative and operational duties.

Questioned Costs - None noted.

Cause - The primary cause of the condition(s) noted is the Authority and the City do not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - The optimal situation would be that inspectors have as limited administrative responsibility as possible, and that a clerical person be assigned to assist and

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

organize those duties. At a minimum, the job responsibilities of the inspectors should be redefined and standardized procedures should be implemented. The City should oversee the Authority's plans to restructure these job duties and review the procedures and changes implemented to ensure they adequately address the findings noted.

Progress and Status - Our recommendation for this finding was not implemented as of June 30, 2006. As of January 31, 2007, significant progress had been made to complete past due re-certifications and ensure that every family is recertified every 12 months. A procedure has been implemented requiring regular review of "error reports" from the HUD system and requisite corrections to ensure that all completed work is properly credited.

Finding 05-03: Waiting Lists - During our testing, we noted that the Authority maintains multiple waiting lists to identify and control tenants applying for housing subsidies. There are three major problems with the waiting lists: (1) the sequence dates on the lists are different than the application dates, (2) many of the applicants do not have original documentation supporting the sequence date in the waiting lists since that information was incorrectly filed, purged from the file, or otherwise not available, and (3) multiple staff have access to the waiting lists and can manipulate the lists at their discretion.

Questioned Costs - None noted.

Cause - The primary cause of the condition(s) noted is the Authority and the City do not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - The Authority should establish written policies as to how it administers its waiting list and a person independent of that function should review the process to ensure those procedures have been followed. In order to minimize manipulation, the waiting list should be restructured to provide minimum access for changing tenant data, complete with an accountability system so that staff with access are aware of the changes. The City should review the procedures developed by the Authority for adequacy in relation to the findings noted.

Progress and Status - The implementation of our recommendation for this finding was in progress as of June 30, 2006. As of January 31, 2007, BHA had completed a purge of the Section 8 Housing Choice Voucher program wait list. A new list has been developed and reconfirmed applicants have been advised of their placement on the wait list. The only new assistance granted families had been for project based assistance. Evidence of their position on the wait list is a part of each participant file.

Finding 05-04: Records Accountability and Access - During our testing, we noted the following administrative weaknesses related to records accountability and access:

- There is no centralized filing system maintained by the Authority.

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

- While there are checklists of the documentation contained in most files, there are no checklists of what documentation "should" be kept in files; i.e. a required documentation checklist.
- There is no system in place to ensure that each file contains a record of eligibility and fund disbursement authorization.
- There is no assignment of responsibility over file maintenance. Three staff may have access to a file at various stages, but not any one staff has overall responsibility to ensure that file documentation is complete.
- Too many staff have access to client information in the Authority's computerized database. This access should be limited to specific caseload assignments.
- Access to physical files is not sufficiently limited since staff take files home in an effort to catch-up with the file review. This practice should be completely eliminated. Tenant files contain personal information and should never leave the Authority.
- Records are shredded after three years, even if the case is active, using volunteers.

Questioned Costs - None noted.

Cause - The primary cause of the condition(s) noted is the Authority and the City do not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - The Authority's overall file maintenance should be re-organized and the re-organization should begin with the development and implementation of procedures that will address the deficiencies noted above. We recommend that the City review the implementation of administrative procedures needed to correct the internal control weaknesses noted above and assist the Authority as needed in the development of those procedures. Legal counsel may be needed to determine the legal ramifications surrounding access to tenant information contained in the Authority's files and if the use of volunteers to shred tenant information is legally acceptable.

Progress and Status - BHA is currently looking into a new file management system. However, many of the same findings noted in the fiscal year 2005 still remain. Subsequent to the audit for June 30, 2006, quotes have been obtained and a vendor identified for the purchase of a new filing system, including 5-part case files. In response to errant filing, staff reviewed each file drawer and correctly filed all participant files. The checklist developed for annual and interim re-certifications provides staff guidance in determining the required file components. Management continues a practice of periodic 100% or random selection for case file audits.

Finding 05-05: Staffing - During our audit we noted that the Authority is understaffed and does not sufficiently coordinate existing staff responsibilities to achieve maximum efficiency. In addition, staff assignments are constantly changing because the workload makes it difficult to learn and follow procedures. We also noted that 56% of a Management Analysts position at the City is paid from the Authority administrative budget, but the functions performed by this

CITY OF BERKELEY, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

position on behalf of the Authority are unclear. Finally, the Authority spends \$35,000 annually for a temp agency that does not support the Authority staff needs.

Questioned Costs - None noted.

Cause - The primary cause of the condition(s) noted is the Authority and the City do not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - The Authority should review its staffing patterns and redistribute workloads. The review and reorganization of the Authority staffing should prioritize the inspector positions and should involve human resources to consult with applicable bargaining units to ensure that staff are not performing duties outside of their job class. The function of the Management Analysts position as it relates to the Authority should be reviewed and clearly identified by the City. The third party consultant providing support services to the Authority should be replaced by additional City support or additional staffing at the Authority, concurrently or soon after internal control weaknesses identified in this letter have been corrected.

Progress and Status - BHA has worked closely with the Finance department to create a corrective action plan that will be effective in resolving the issues surrounding the day to day operations at the Authority. However, BHA has not had the resources to implement the recommendation as noted above. A "corrective action plan" was submitted to HUD as part of the FY05-06 SEMP Certification. Staff continues to make progress on each of the indicators.

CITY OF BERKELEY, CALIFORNIA
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Corrective Action Plan to Deficiency 07-01

Management concurs with the recommendations and has implemented a corrective plan to eliminate the findings identified in this audit.

Several process improvements have been implemented since the on-site visit from the auditor.

- 1) Copies are made of all deposit receipts and back-up documentation. These are kept in a designated binder for SDLF.
- 2) All accounts have been reconciled and posted for current year 07/08.
- 3) Reconciliation of prior fiscal years will be attempted with most recent current years first, using bank deposit data (if available).
- 4) Any outstanding balances dating back two fiscal years will be written off since it is more cost-prohibitive due to limited BHA accounting resources.

Corrective Action Plan to Deficiency 07-02

- 1) The staff previously responsible for performing eligibility functions have been terminated and new staff are in place.

There are formal procedures governing the initial and re-examination of family eligibility. New and/or revised forms were developed to ensure more complete reporting from families. A check-list has been developed and is included in each participant file.

RHCP and LIPH were previously privately managed. The contract was not renewed after June 30, 2007 when it expired, in large part due to failure to perform. A combination of in-house and contracted services are currently performing the required program functions of these programs.

- 2) BHA contracted with NanMcKay and now uses "GoS8" software for rent comparables (comps). A minimum of 2 comps are obtained for each new contract. In addition a "rent reasonableness" worksheet has been developed for owners to complete. This new form provides detailed information about the amenities in the unit; this form is required for all new contracts and contract rent increases.
- 3) The utility allowance was revised effective March 2007, approved by the Board of Commissioners in December 2007. The Management Analyst position once filled will be responsible for recalculating the utility allowance schedule on an annual basis.
- 4) Inspection services for the S8 program have been contracted out for the past two years. Inspections are scheduled in accordance with established HUD guidelines, and with minimal exceptions (i.e. family no-show), over 90% of the units were inspected as required during the year.

CITY OF BERKELEY, CALIFORNIA
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

HUD SEMAP indicator #11 tracks pre-contract inspections, and the PHA fails the indicator if more than 2% of the new contracts lack an inspection. The BHA passed this indicator with only 1 unit not having a passed inspection prior to the effective date of the contract.

Note: Due to staffing shortages the inspection reports were not filed in a timely manner. Current procedure is to file all inspection reports within one week of completion.

Inspection services for the LIPH and RHCP program were contracted out. The contractor performed 100% of the required inspections during June 2007, although the contract terminated before appropriate follow up was performed. The contract was not renewed when it expired on June 30, 2007.

Contact Person Responsible for All Corrective Actions Above

Tia Ingram, Executive Director of the Berkeley Housing Authority, (510) 981-5471

SUPPLEMENTAL STATEMENTS

CITY OF BERKELEY
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CONTRACT NO. 06B-5351
WEATHERIZATION
CONTRACT TERM: 1/01/2006 - 12/31/2007
FOR THE PERIOD JUL 1, 2006 THROUGH JUNE 30, 2007
CSD 680

	JAN 1, 2006 through JUN 30, 2006	JUL 1, 2006 through JUN 30, 2007	Total Audited Costs	Total Reported Expense	Total Budget
REVENUE					
Grant Revenue	33,831	152,898	186,729	186,729	198,227
Accrued Revenue	25,084	-21,668	3,416	3,416	
Total Revenue:	58,916	131,229	190,145	190,145	198,227
EXPENDITURES					
ADMINISTRATION (Project #XX06D6)					
1.a Administration Costs	2,277	9,531	11,808	11,808	15,855
Total Administration costs:	2,277	9,531	11,808	11,808	15,855
PROGRAM (PROJECT#XX06D7)					
2.a Intake (eligibility Determination)	1,033	1,892	2,925	2,925	3,954
3.a Program Costs	51,182	106,915	158,098	158,098	151,830
3.b Workers' Compensation	1,575	9,591	11,166	11,166	12,750
4.a Outreach (Other Program Costs)	1,500	3,300	4,800	4,800	9,884
4.b Training (Other Program Costs)	1,349	0	1,349	1,349	3,954
Total Program Operations	56,639	121,698	178,337	178,337	182,372
Total Costs:	58,916	131,229	190,145	190,145	198,227
Revenue over (under) costs			-	-	-

LIHEAP Contracts

**CITY OF BERKELEY
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CONTRACT NO. 06B-5351
LIHEAP ASSURANCE 16/ECIP/HEAP
CONTRACT TERM: 1/1/2006 - 12/31/2007
FOR THE PERIOD July 1, 2006 THROUGH JUNE 30, 2007
CSD 670**

	JAN 1, 2006 through JUN 30, 2006	JUL 1, 2006 through JUN 30, 2007	Total Audited Costs	Total Reported Expense	Total Budget
REVENUE					
Grant Revenue	11,316	65,823	77,139	77,139	119,636
Accrued Revenue	7,388	(5,776)	1,612	1,612	
Total Revenue:	18,704	60,048	78,752	78,752	119,636
EXPENDITURES					
Assurances 16 program costs (XX06D1)					
1. Assurance 16 Activities		20,168	20,168	20,168	39,236
Total Administration costs:	-	20,168	20,168	20,168	39,236
Administration Costs (for Assurance 16, ECIP, & HEAP) - XX06D2 & XX06D3					
2. IN Intake (Eligibility Determination)	128	5,155	5,283	5,283	10,363
3. Administrative Costs	2,418	12,298	14,716	14,716	24,044
Total Administration costs:	2,546	17,453	19,999	19,999	34,407
ECIP Program costs & households (XX06D4)					
4. Outreach	1,023	5,809	6,832	6,832	11,400
4. Furnace Repairs Material Cost	9,029	9,245	18,274	18,274	18,573
4. Worker's Compensation	-	132	132	132	
Total Program costs	10,052	15,186	25,238	25,238	29,973
HEAP Outreach/WPO Activity Costs					
5. Outreach (5% total Heal allocation)	6,106	5,741	11,847	11,847	14,510
Total	6,106	5,741	11,847	11,847	14,510
ENERGY EDUCATION WORKSHOP					
6. Energy Education Client Workshops	-	1,500	1,500	1,500	1,510
Total	-	1,500	1,500	1,500	1,510
Total Costs:	18,704	60,047	78,751	78,752	119,636
Revenue over (under) costs			0	0	-

LIHEAP Contracts

**CITY OF BERKELEY
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CONTRACT NO. 07B-5401
LIHEAP ASSURANCE 16/ECIP/HEAP
CONTRACT TERM: 1/1/2007 - 12/31/2007
FOR THE PERIOD JULY 1, 2006 THROUGH JUN 30, 2007**

	JAN 1, 2007 through JUN 30, 2007	Total Audited Costs	Total Reported Expense	Total Budget
REVENUE				
Grant Revenue	1,595	1,595	1,595	71,011
Accrued Revenue	3,770	3,770	3,770	
Total Revenue:	<u>5,364</u>	<u>5,364</u>	<u>5,364</u>	<u>71,011</u>
EXPENDITURES				
Assurances 16 program costs (XX07D1)				
1. Assurance 16 Activities	-	-	-	23,747
Total Administration costs:	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,747</u>
Administration Costs - for Assurance 16, ECIP, & HEAP - (XX07D2 & XX07D3)				
2. Intake (Eligibility Determination)	-	-	-	6,122
2. Administrative Costs	-	-	-	14,248
Total Administration costs:	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,370</u>
ECIP Program costs & households (XX07D4)				
3. Outreach	-	-	-	6,559
3. Worker's Compensation	-	-	-	-
3. Furnace Repairs Material Cost	5,364	5,364	5,364	11,589
Total Program costs	<u>5,364</u>	<u>5,364</u>	<u>5,364</u>	<u>18,148</u>
HEAP Outreach/WPO Activity Costs				
4. Outreach (5% total Heal allocation)	-	-	-	8,746
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,746</u>
Total Costs:	<u>5,364</u>	<u>5,364</u>	<u>5,364</u>	<u>71,011</u>
Revenue over (under) costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>

CONTRACT NO. 07B-5401
WEATHERIZATION
CONTRACT TERM: 1/01/2007 - 12/31/2007
FOR THE PERIOD JULY 1, 2006 THROUGH JUN 30, 2007
CSD 557D

	JAN 1, 2007 through JUN 30, 2007	Total Audited Costs	Total Reported Expense	Total Budget
REVENUE				
Grant Revenue	30,875	30,875	30,875	120,066
Accrued Revenue	9,573	9,573	9,573	
Total Revenue:	40,448	40,448	40,448	120,066

EXPENDITURES

ADMINISTRATION (Project #XX07D6)

1. Administrative Costs	2,268	2,268	2,268	9,562
Total Administration costs:	2,268	2,268	2,268	9,562

PROGRAM (PROJECT#XX05D7)

2. Training	-	0	-	2,400
2. Intake (Eligibility Determination)	920	920	920	2,400
2. Direct Program Activities	33,216	33,216	33,216	93,536
2. Outreach	2,300	2,300	2,300	6,000
2. Worker Compensation	1,744	1,744	1,744	6,168

Total Program Operations	38,180	38,180	38,180	110,504
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Total Costs:	40,448	40,448	40,448	120,066
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Revenue over (under) costs	0	0	-	-
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CITY OF BERKELEY
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CFDA No: 81.042
CONTRACT NO. 06C-1601
CONTRACT TERM: 4/1/2006 to 1/31/2007
FOR THE PERIOD July 1, 2006 through June 30, 2007
PROJECT #XX07C5 & XX07C6

	JUL 1, 2006 through Jan 31, 2007	Total Audited Costs	Total Reported Expense	Total Budget
REVENUE				
Grant Revenue	27,656	27,656	27,656	27,656
Accrued Revenue				
Total Revenue:	<u>27,656</u>	<u>27,656</u>	<u>27,656</u>	<u>27,656</u>
EXPENDITURES				
ADMINISTRATION (Project #XX07C5)				
Administrative costs	1,392	1,392	1,392	1,383
Fringe Benefit				
Telephone-communication				
Intake (Eligibility Determination)				
Total Administration costs:	<u>1,392</u>	<u>1,392</u>	<u>1,392</u>	<u>1,383</u>
ADMINISTRATION (Project #XX07C6)				
Program Costs				
Liability Insurance	2,500	2,500	2,500	2,500
Health and Safety	1,608	1,608	1,608	1,936
Other Misc. Program Costs	100	100	100	
Training & Technical Assistance				736
Total Program costs	<u>4,208</u>	<u>4,208</u>	<u>4,208</u>	<u>5,172</u>
Program Operations				
Measure	19,262	19,262	19,262	17,544
Outreach	900	900	900	1,500
Intake	110	110	110	125
Client Education	220	220	220	250
Workers' Compensation	2,335	2,335	2,335	1,682
Total Program Operations	<u>22,827</u>	<u>22,827</u>	<u>22,827</u>	<u>21,101</u>
Total Program Expenditures	<u>28,427</u>	<u>28,427</u>	<u>28,427</u>	<u>26,273</u>
Total Costs:	<u>28,427</u>	<u>28,427</u>	<u>28,427</u>	<u>27,656</u>
Revenue over (under) costs		(771)	(771)	-

CITY OF BERKELEY
COMMUNITY ACTION AGENCY
SUPPLEMENTAL STATEMENT OF REVENUE AND EXPENDITURES
CFDA 93.569
CSBG CONTRACT 06F-4701
FOR THE PERIOD July 1, 2006 THROUGH JUNE 30, 2007
Grand Award Thru December 31, 2007

	July 1, 2006 through December 31, 2006	January 1, 2007 through June 30, 2007	Total Audited Cost FY 2007	Total Reported Expenses Contract -To-Date	Total Budget
REVENUE					
Grant Revenue	83,882.00	46,285.00	130,167.00	219,841.00	347,112.00
Accrued Revenue	-	-	-	-	-
Total Revenue	83,882.00	46,285.00	130,167.00	219,841.00	347,112.00
EXPENDITURES					
Personnel Costs					
Salaries & Wages	-	-	-	-	-
Fringe Benefits	-	-	-	-	-
Sub-total Personnel Costs	-	-	-	-	-
Non-personnel Costs					
Subcontractors	83,882.00	89,674.00	173,556.00	263,230.00	347,112.00
Sub-total Non-personnel Costs	83,882.00	89,674.00	173,556.00	263,230.00	347,112.00
Total Costs	83,882.00	89,674.00	173,556.00	263,230.00	347,112.00
Revenue over (under) costs	-	(43,389.00)	(43,389.00)	(43,389.00)	



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

REVISED

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Members of the City Council
City of Berkeley, California

We have audited the financial statements of the business-type activities of the City of Berkeley (the "City"), California, as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion of the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider compliance control Deficiency 07-02 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Revision
1/16/09



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City's audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. S. Uhlenberg LLP

March 10, 2008
Redwood City, California



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

PEGGY H. CHEN, C.P.A. JEFFREY J. IRA, C.P.A. KATHERINE CHAO, C.P.A. JULIE T. LIN, C.P.A.

REVISED

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council
City of Berkeley, California

Compliance

We have audited the compliance of the City of Berkeley, California (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. The City's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133*, and are described in the accompanying schedule of findings and questioned costs as Deficiency 07-02.



Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider compliance control deficiency 07-02 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Berkeley taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Supplemental Statements are presented for purposes of additional analysis as required by the OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information of the City's audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Uhlenberg LLP

March 10, 2008
Redwood City, California

CITY OF BERKELEY, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Section II - Financial Statement Findings

During our audit of the City's Housing Authority ("Berkeley Housing Authority") for the fiscal year ended June 30, 2007, we noted significant deficiencies in internal control design and operation as described in section III of this schedule as Deficiency 07-02.

Section III - Federal Award Findings and Questioned Costs**Deficiency 07-02: Section 8 Vouchers - CFDA #14.871, U.S. Dept. of HUD**

Criteria - Federal guidelines require local governments to sufficiently maintain files so that supporting documentation can be provided evidencing each entity's compliance with federal procedures.

Condition - During our audit of BHA for the fiscal year ended June 30, 2007 we noted significant deficiencies in internal control design and operation for the Section 8 Voucher program.

The following summarizes the results of internal control and compliance tests we performed for thirty tenant files sampled from the Section 8 program.

1. Four samples were missing the Housing Assistant Payment (the "HAP") contract.
2. In one sample a copy of the birth certificate was not on file which was required to verify citizenship.
3. One sample was missing the family report.
4. Two samples had family reports that were completed more than 90 days after the anniversary date.
5. Ten samples were missing waiting list information.
6. In one sample, the utility calculation was not done correctly.
7. One sample was missing the housing quality standard (the "HQS") inspection report.
8. In one sample, the income re-examination information was the same as last year.

The following summarizes similar findings we had in the 2006 audit and is presented here for comparison purposes.

1. Five samples were missing the Housing Assistant Payment (the "HAP") contract.
2. In one sample the actual HAP amount did not match with the amount on the HAP contract.
3. Four samples were missing the family report.
4. Two samples were missing supporting documentation verifying bedroom size.
5. One sample was missing supporting documentation verifying the social security number.
6. Thirteen samples were missing waiting list information.
7. In three samples, the income calculations were done incorrectly.

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8. Eleven samples were missing the housing quality standard inspection report.
9. The annual re-certification process was not done in eight samples.
10. One tenant file could not be located by BHA.

Questioned Costs - We were unable to identify any known or likely questioned costs.

Context - This is a repeat recommendation. While the findings did decrease from prior year, a documentation issue still exists as evidenced by the amount of missing items noted during the current audit. Although BHA has taken steps to improve their filing systems and maintenance, they still have a high rate of missing documentation as noted above.

Effect - BHA, as a component unit of the City, was not in compliance with the documentation requirements of the Section 8 Vouchers program. The missing documentation made it difficult to verify BHA's compliance with other sections of the program. This deficiency could lead to penalties from HUD and other federal agencies.

Cause - The primary cause of the conditions noted is a lack of monitoring over programs at the Berkeley Housing Authority (the "Authority"). The monitoring is insufficient mostly because the City's housing authority does not have adequate resources and personnel to manage the Authority's caseload.

Recommendation - Based on our procedures performed during the audit of the BHA, we recommend that the BHA create and implement procedures that will achieve the following:

1. Eligibility Process - BHA should collect application data, verify income eligibility (including third party verifications), calculate rent, and perform annual re-certifications and inspections.
2. Reasonable Rent Determination - BHA should have written procedures as to how they determine rent reasonableness, and should conduct tests on properties to be assisted, including checking for comparability as required by the Department of Housing and Urban Development.
3. Utility Allowance Schedule - BHA should conduct utility allowance surveys on an annual basis and the surveys should be used in the determination of total tenant payments, which in part determines the Housing Assistance Payment.
4. HQS Inspections and Enforcement - Under the Section 8 Programs administered by BHA, they should inspect each and every unit prior to initial occupancy and annually, thereafter; and enforce decent, safe, and sanitary standards as a condition of providing federal rent assistance payments.

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All aspects of the housing assistance process should revolve around the findings of the Housing Inspectors. No recertification or initial move-in should be approved until inspections are conducted. A utility allowance survey should be conducted immediately and rent adjustments made accordingly.

Views of Responsible Officials and Planned Corrective Actions - The staff previously responsible for performing eligibility functions have been terminated and new staff are in place.

There are formal procedures governing the initial and reexamination of family eligibility. New and/or revised forms were developed to ensure more complete reporting from families. A check-list has been developed and is included in each participant file.

RHCP and LIPH were previously privately managed. The contract was not renewed after June 30, 2007 when it expired, in large part due to failure to perform. A combination of in-house and contracted services are currently performing the required program functions of these programs.

1. BHA contracted with NanMcKay and now uses "GoS8" software for rent comparables (comps). A minimum of 2 comps are obtained for each new contract. In addition a "rent reasonableness" worksheet has been developed for owners to complete. This new form provides detailed information about the amenities in the unit; this form is required for all new contracts and contract rent increases.
2. The utility allowance was revised effective March 2007, approved by the Board of Commissioners on December 07. The Management Analyst position once filled will be responsible for recalculating the utility allowance schedule on an annual basis.
3. Inspection services for the S8 program have been contracted out for the past two years. Inspections are scheduled in accordance with established HUD guidelines, and with minimal exceptions (i.e. family no-show), over 90% of the units were inspected as required during the year.
4. HUD SEMAP indicator #11 tracks pre-contract inspections, and the PHA fails the indicator if more than 2% of the new contracts lack an inspection. The BHA passed this indicator with only 1 unit not having a passed inspection prior to the effective date of the contract.

Note: Due to staffing shortages the inspection reports were not filed in a timely manner. Current procedure is to file all inspection reports within one week of completion.

5. Inspection services for the LIPH and RHCP program were contracted out. The contractor performed 100% of the required inspections during June 2007, although the contract terminated before appropriate follow up was performed. The contract was not renewed when it expired on June 30, 2007.